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C O N F I D E N T I A L SECTION 01 OF 03 SANTO DOMINGO 004719

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SUBJECT: DOMINICAN TRANSITION #13: FERNANDEZ TELLS
AMBASSADOR HE HAS HALF-PRICE OIL FROM VENEZUELA AND
PROMISES OF DOLLAR LOANS

REF: SANTO DOMINGO 4637 STATE 3749

Classified By: Ambassador Hans H. Hertell for Reason 1.4 (b) and (d).

11. (U) This is the amplified and corrected version of ref a, part of our series on the transition to a new presidential administration in the Dominican Republic. Ten days before his inauguration, Leonel Fernandez spoke about his approach to the economic crisis and commented on his relations with Venezuela's Hugo Chavez.

Lunch with Leonel

(U) On August 6 the Ambassador and visiting Senator Bill Nelson (D-FL) attended a lunch hosted by President-elect Leonel Fernandez (PLD) at the office of his Global Foundation for Democracy and Development (FUNGLODE). Also present were Alfonso Fanjul of sugar manufacturer Central Romana Corporation and Alberto Ibarquen, publisher of the Miami Herald. The lunch took place just 10 days before Fernandez was to be installed as President.

Rescuing the Economy

(SBU) The President-elect spent much of the time discussing the deterioration of the Dominican economy under the Mejia administration, 2000-2004. Fernandez said that he and his foundation have been busy while he has been out of office and that his administration already has mid-term and long-term plans to bring the country back to prosperity and economic stability. He said his initial economic plan involves quickly increasing Central Bank foreign currency reserves liquidity so it can support the value of the peso, allowing him to focus on the longer-term health of the economy.

(C) In particular, Fernandez told his guests, he has several commitments that could generate more than 1 billion dollars in hard currency inflow for the country. Foremost among these is USD 500 million in investments in the tourism industry offered by Spanish companies in return for rolling back a proposed tax on hotel rooms. In addition, Fernandez said, he has offers of dollar loans to the Central Bank from Brazil (USD 250 million), Venezuela (USD 250 million), and Spain (USD 150 million). Fernandez said he will try to negotiate additional loans by governments and private institutions. His goal is to raise confidence in the Dominican peso, which could then help lower inflation. (Note: we heard subsequently that the Spanish companies may come through with considerably less, perhaps in the neighborhood of USD 200 million.)

(C) In addition, Fernandez said, to provide immediate improvement in electricity supply and to build credibility with the Dominican public, he has secured a USD 65 million loan from a large national bank to purchase fuel and keep electricity flowing as of August 17. Fernandez admitted this was only a band-aid treatment but maintained it would buy his administration time to address the electric sector crisis in earnest.

(C) When asked, Fernandez said dollarization would eventually happen in the Dominican republic. In the long run, in his view, there will only be three world currencies: the US Dollar in the Western hemisphere, the euro in greater Europe, and the Japanese or Chinese yen in Asia. Dollarization is impossible in the short term for the Dominican administration. He said he would be labeled as "selling the nation" if he allowed the disappearance of a national currency imprinted with portraits of the founding fathers.

Fernandez and Chavez: A Relationship of Dependence

(C) Responding to Senator Nelson's inquiry about relations with Venezuela, Fernandez said he finds Chavez charismatic but deplores his autocratic tendencies. He said Chavez had considered Mejia unresponsive to allegations of coup-plotting, with the result that Chavez's already established relationship with Fernandez was further

reinforced.

(C) The Dominican Republic has long been a market for Venezuelan petroleum. Fernandez noted that one factor in the current electricity crisis is the rising cost of fuel for generation; another is the fact that the government has failed to pay electricity generators and distributors on time. Fernandez said that during his visit to Caracas in June, he secured a promise from Chavez of extremely favorable terms for oil imports -- a credit line for purchases of Venezuelan oil at half the world price, with no payments due for six months.

(C) Fernandez said Chavez would face serious problems even if he won the August 15 recall referendum. He said that he had told Chavez that this should be Chavez's last term in office. Fernandez agreed on the need for Chavez to tone down his rhetoric and to concentrate more on good governance and less on image. Fernandez indicated that he would communicate this to Chavez when they next meet. Fernandez did not expect Chavez to attend the Dominican inauguration because of the timing of the referendum in Venezuela. Fernandez described Chavez as wanting to emulate Fidel Castro, both in style and substance. He says he told Chavez that he must govern for all Venezuelans, not just for the poor, and he reach out to business and the economic elites. "Chavez lacks leadership skills to move implement his agenda, lacks a plan for doing so, and has transformed nothing in Venezuela. He is Fidel without talent, but with oil."

(C) Fernandez says he sees his role as that of an international statesman and he offered to be a bridge between the world and Venezuela.

The Fragility of a Latin American Mandate

(SBU) Fernandez was keenly aware that he faces problems, even though he comes to office with a strong mandate. He said that he understands the high expectations of the people and knows that his political honeymoon will not be long. He referred to several other Western Hemisphere presidents driven from office because of economic or other crises. Fernandez said that he was coming to the presidency at a challenging time and that the effort to rebuild the nation's institutions could take longer to accomplish than his four-year term in office. He did not expect to not seek reelection in 2008 -- unless his party asks him to run again.

(SBU) Senator Nelson mentioned the possibility of a reduction in Dominican armed forces levels and suggested the United States might assist in this process. Fernandez expressed interest in the idea and stressed that the lines of communication with the U.S. military would be open.

(SBU) The Ambassador and Senator Nelson spoke to Fernandez about the importance of dealing with corruption, port security, the U.S. Third Border Initiative, and Dominican relations with Haiti. Senator Nelson stressed to Fernandez the importance of naming upstanding diplomats as Ambassador and Consuls in Haiti, reminding Fernandez of the significant responsibilities of those individuals for legitimate cross-border activity.

(C) The Ambassador reiterated his offer for the U.S. Embassy to vet the names of candidates for Fernandez's key appointments and encouraged him to fight corruption at all levels.

12. (U) Drafted by Jay Raman and LtCol Glenn Huber.

13. (U) This report and others in our election and transition series can be read on the SIPRNET at <http://www.state.sgov.gov/p/wha/santodomingo/index.cfm> along with extensive other current material.
HERTELL